



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
R. Michael Gill | Secretary of Commerce
Signe Pringle | Deputy Secretary of Commerce

Transforming Manufacturing Workgroup
April 18, 2022, 10:00-12:00pm
Meeting Minutes

Workgroup Members in Attendance:

- Delegate Lily Qi, Chair
- Senator Chris West
- Senator Jim Rosapepe
- Todd Sabin, Maryland Commerce
- Erin Roth, Maryland Labor
- Mike Galiazzo, RMI
- Lindsay Ryan, USM
- Suzy Ganz, MMAB
- Kelly Koermer, MACC
- Mike Kelleher, Maryland MEP
- Adam Porter, Fraunhofer USA
- Ken Sanchez, Chesapeake Specialty Products
- Jack Weber, Uptown Press
- April Richardson, Food Opportunity
- Bob Mather, Stanley Black & Decker
- Wynne Briscoe, Regional Director for Southern Maryland, SBDC
- Irnande Altema, Associate Vice President for Government and Business Affairs, MICUA

Staff:

- Todd Sabin, Maryland Commerce
- Richard Clinch, Jacob France Institute

Public:

- Delegate Eric Luedtke
- Katie Hardy, Office of Delegate Qi

Welcome and Approval of Minutes

Delegate Qi welcomed all members to the meeting. The meeting minutes were approved unanimously.

Updates

- **Legislative Updates and Introduction of House Majority Leader Delegate Erick Luedtke – Delegate Qi**
Delegate Qi gave updates on legislation relating to the Workgroup. Delegate Qi first discussed HB 841 and noted that although the program was practically in existence for acceleration of state income tax for equipment, the bill was still moved forward to either codify the process or raise awareness of the program. Delegate Qi said she understood why the House Ways and Means Committee did not need to move because it was already in existence. Delegate Qi then discussed HB 1384, which passed the House

with a funding level of one million dollars and got stuck in the Senate Rules Committee. Delegate Qi then gave the floor to Delegate Erick Luedtke and said she was glad he could join the workgroup.

- **Delegate Luedtke Address to Workgroup**

Delegate Luedtke introduced himself as the Chair of the Revenue Subcommittee where most economic bills pass through. The subcommittee had more than 100 bills come through during the past session totaling over 8 billion dollars if all had been passed. Delegate Luedtke said groups like the Transforming Manufacturing Workgroup are important in informing the subcommittee's decisions. Delegate Luedtke then reviewed HB 1384 which stalled in the Senate. Delegate Luedtke said it usually takes 2-3 years for a new idea to get passed through the legislature and he hoped the bill comes back next year. Delegate Luedtke said that the House Ways and Means committee has taken a more data driven approach and looks at metrics for each program to measure desired outcomes. Delegate Luedtke said the House Ways and Means committee is asking agencies for more data gathering in order to make the best investment in economic development programs with taxpayer money on behalf of the state.

Delegate Luedtke then reviewed the Historic Revitalization Tax Credit used to redevelop historic commercial properties. Over the past two years the legislature has increased the program's funding from \$9 million to \$20 million annually. Delegate Luedtke said programs like this have consistently shown a positive economic impact, noting that data shows that for every \$1 the state has invested has resulted in \$8 of economic activity.

Delegate Luedtke said that the current strategy in creating new economic development programs is to pilot them for the first few years to understand what is working, what is not working, and whether they should be continued. The legislature has been willing to expand programs that are doing well and to cut back those programs where data does not support continued investment. One example Delegate Luedtke gave is the five year pilot on a match for the Work for Opportunity Tax Credit which incentivizes companies who hire veterans, returning citizens, or those who have the most persistent challenges with finding employment. Maryland now provides a 50% match for that program. The legislature also passed the Private Letter Rulings for inhouse accountants to go through the Comptrollers Office for clarification on tax issues. Additionally Delegate Luedtke noted the legislature passed an extension of the More Jobs for Marylanders program for two years with some changes instead of it sunseting this year. The program's original intent was to support new manufacturing activity in Tier 1 counties who have had difficulty in creating new economic opportunities. However, Delegate Luedtke said that about 80% of beneficiaries over the past few years were not located in Tier 1 counties. As a result, this year the legislature increased incentives in Tier 1 counties and decreased incentives in Tier 2 counties in order to focus on the original intention of the program. Legislation was also passed to provide further clarification on the Digital Products Tax program. Lastly, Delegate Luedtke noted the creation of the George C. Edwards fund for the three Western Maryland counties which have lost economic activity. This will be a \$20 million fund with \$10 million from the Governor's Office and \$10 million for the legislature and will have \$10 million for the next 3 years. This is a Sunny Day fund to increase economic activity in the region.

Ken Sanchez expressed his disappointment in what the session accomplished for manufacturers. Mr. Sanchez noted that the three companies that just located at Tradepoint Atlantic will create an estimated 4,000 jobs. This will make it difficult for smaller companies like his to compete for labor against larger companies. Mr. Sanchez suggested that one way to solve the problem is to have some funding for technology to lessen the challenges in accessing workers. Mr. Sanchez asked Delegate Luedtke how much of the estimated \$8 billion that passed through his subcommittee went into manufacturing versus other industries like bio. Additionally, Mr. Sanchez stated that a challenge in finding workers was in obtaining enough visas and that he has not seen a program passed that addresses both the technology and labor needs of manufacturers.

Delegate Luedtke said he understood that HB 1384 not passing was frustrating to manufacturers and reiterated that it generally takes several years for programs to pass. Delegate Luedtke said that the legislature understood the labor challenges and that those challenges were one reason why the Work for Opportunity Tax Credit was passed. Additionally, Delegate Luedtke noted that another bottleneck for businesses finding employees was available child care and that is why the state looked expanding the number of childcare providers by providing them with low interest loans.

Delegate Qi went on to say it was good to see the bipartisan support for this bill and that there is a silver lining in the Commerce's \$1 million budget for a similar program. Mr. Galiazzo supported Mr. Sanchez's comment on embracing technology when workers are hard to find. Senator West stated that the bill should not be stuck in the Senate Rules committee next year so the circumstances around HB 1384 should not happen again. Senator West noted that recommendations should be in place by November 1st and the Department of Legislative Services will draft the bill and the bill will be filed and cross filed early to get early hearings and voting sessions. If the bills get passed, they should be passed prior to crossover.

Lyndsay Ryan asked if metrics have changed for program evaluation aside from employment growth when looking at the pilot programs. Delegate Luedtke answered by saying the legislature works with Commerce to collect data which may include how much technology has been adopted by the pilot and the resulting impact on productivity. He then went on to answer a question by Kelly Koerner about expanding the funding for Workforce Development Sequence Scholarship. Delegate Luedtke answered by saying he and Senator Hester increased funding for the Cyber Security Public Service Scholarship. He then asked Kelly if there any other changes aside from funding she would like to see. She responded by saying it may take a year for MHEC to approve their workforce sequences so the ability to respond more quickly would be beneficial. She also suggested more enhanced funding for community colleges to provide more scholarships and achievement stipends to incentivize students' completion of programs to be job ready.

Delegate Luedtke then asked Mr. Sanchez and Mr. Galiazzo if the employment challenges they saw in the industry were for either or both skilled workers or unskilled workers? Mr. Sanchez and Mr. Galiazzo said both. Mr. Galiazzo went on to say manufacturers need management just as much as line workers and suggested that data collection may need to focus on the open positions in the industry.

Senator Rosapepe noted that a lot of the budget surplus money went to the types programs that have seen lots of funding in the past and there was less directed to newer ideas. Senator Rosapepe said that workgroups like this need to increase the political saliency of innovation and re-focus on money for workforce development at community colleges. Senator Rosapepe suggested the workgroup come up with a financial agenda for the next fiscal year. Delegate Luedtke agreed that Maryland manufacturing have a transition agenda for the next Governor.

Delegate Qi asked Delegate Luedtke about HB 1479 and the Maryland Equity Investment Fund that supports innovation. Delegate Luedtke replied Maryland was behind other states in equity investments from our public private partnerships and state agencies. Delegate Luedtke noted that \$10 million in unallocated general funds goes into TEDCO which has an interest in manufacturing but said that more could be done towards this commitment.

- **Maryland Manufacturing Modernization (M3) Pilot Program Update – Todd Sabin**

Todd Sabin from Commerce then reviewed the current draft of the Maryland Manufacturing Modernization (M3) Pilot Program. He reviewed the criteria for application which included a 50% matching grant with a minimum grant award of \$20,000 and a maximum of \$50,000 of total project costs, along with proposed eligibility criteria where applicants must be an established Maryland manufacturer with demonstrated experience, technical expertise, and financial stability to implement

proposed modernization projects. Eligible costs include, but are not limited to, capital expenses such as equipment, raw materials, and implementation costs which include technical assistance and consulting fees. Mr. Sabin explained the program criteria was a work in progress and welcomed members' feedback.

Delegate Qi was glad to hear Commerce's matching grant reflected the workgroup's proposed legislation. Delegate Qi said that in 2023 the legislature will have power to add money to the budget and this will give the legislative branch more equal power with the administrative branch in allocating the budget. She noted that if the M3 program goes well, the legislature can add money to the program. Mr. Weber suggested that only Maryland based companies that have a headquarters in Maryland should be eligible and that businesses with just a site operation should not qualify. Mr. Galiazzo asked how many companies would be affected by a requirement of not having their headquarters in Maryland. Ms. Richardson stated that this could hinder SMEs who may be based in the DMV region, but with operations in Maryland. Mr. Clinch stated it would be complicated to give exceptions to some states over others as to where their HQ is located. Delegate Qi noted this is not codified, so Commerce can give preference to Maryland companies with HQ in the state. Mr. Weber suggested a \$5 million cap on company size based on revenue. Mr. Mather disagreed with a company's headquarters required to be in the state and said not having this requirement could encourage businesses to invest in the state even if their business is headquartered somewhere else. Senator Rosapepe suggested Commerce not make limitations but rather make priorities and preferences to move the funds quickly. Ms. Richardson noted that employment at small manufacturers can vary significantly during different production seasons and the Department should consider this when thinking about how large a company can be to qualify. Senator West asked that the money be used to install equipment in a Maryland facility only. Mr. Galiazzo stated there should be ease of access and we need to promote awareness to more manufacturers in the state.

Ms. Ryan asked what first steps are or if there were a few suggested projects Commerce can propose as examples for businesses so they understand how to use the funds. Mr. Kelleher agreed with Ms. Ryan and said Commerce needs to fund good projects with the funds. Delegate Qi suggested if the M3 project is a success she would like to introduce a bill and have it cross filed with Senator Rosapepe to add budget language to this program. Ms. Richardson asked what can be added to reflect minority businesses with \$1M or less. Delegate Qi then asked members to funnel thoughts directly to Mr. Sabin for review.

Senator Rosapepe noted there are only a couple of months until the funds are available, so Commerce should have the criteria by June 1st with the ability to go live on Commerce's website by July 1st. Mr. Sanchez agreed this should be open for application on July 1st. Senator West stated the earlier Commerce starts the more data can be gathered that can be used for proposed legislation. Mr. Galiazzo noted the list of proposed projects are broader in the legislation. Delegate Qi suggested Commerce refer to the bill's language for this program.

Mr. Sanchez asked what commerce programs are currently available for manufacturers to take advantage of. He said some of the programs he has looked at on the Commerce website seem to have expired or don't have funds available. Mr. Sabin stated several programs including More Jobs for Marylanders, Partnership for Workforce Quality, and the Job Creation Tax Credit, but a more comprehensive list can be provided to the workgroup on their current status.

- **Transforming Manufacturing Workgroup Update – Richard Clinch**

Mr. Clinch reviewed next steps on the workgroup schedule. He noted regulatory issues don't appear to be as big of a constraint as workforce and asked the group if he should spend more time on this. He suggested he could conduct interviews with companies through RMI and MEP to identify regulatory issues. Mr. Galiazzo stated RMI has held forums on manufacturing and regulatory issues were not

brought up much and he suggested that technology and workforce were more valuable constraints to focus on. Senator Rosapepe stated the perception in Annapolis, as driven by the National Federation of Independent Businesses and the Maryland Chamber of Commerce, is that taxes and regulations are the issues in manufacturing. Delegate Qi agreed these groups work more with regulatory issues than with workforce and that more manufacturing business advocacy was needed to reflect real issues in the industry to influence policy.

Mr. Clinch said he will report in May and June on high level tax and regulatory issues so he can move onto workforce and asked the workgroup if they agreed. Delegate Qi stated tax policy can impact workforce. Mr. Clinch went on to say for tax reporting that, while it is hard to breakout Maryland taxes in manufacturing in comparison to other states, according to the Tax Foundation for larger manufacturers Maryland is roughly in the middle. He will also report on the utilization of state programs for manufacturers. Mr. Clinch then asked the group if there were any other issues to be covered. Mr. Galiazzo brought up for review the new Climate Change bill so manufacturers understand it, tax policy to help reduce costs of bringing on new employees, and reviewing workman's compensation. Delegate Qi said this was of interest to her as she serves on the Economic Matters committee and Workman's Comp subcommittee and would like to hear from businesses who find this to be a burden.

Ms. Roth brought up offshore wind as it relates to regulation, the workforce needs for this new industry, and the gaps in workforce development as it relates to adopting new technologies and Industry 4.0. Mr. Clinch stated he may not be able to focus on workman's comp or the regulation of specific industries such as offshore wind given time and resource constraints. Delegate Qi suggested that the workgroup could invite a speaker these questions and have a Q&A with the workgroup. Senator Rosapepe suggested someone outside of the workgroup should analyze the impact of the climate change bill on manufacturers. He then brought up a bill he passed on supporting the investment by businesses in industrial insulation which the House turned into a grant program instead of a tax credit which should be brought to the attention of manufacturers.

Delegate Qi then turned the floor over to Mr. Clinch who went on to discuss the upcoming schedule. For regulatory issues he can reach out to RMI and MEP to discuss in a small group. He will also update the group on tax issues and current state programs for manufacturers. In terms of workforce, he can present what is the labor market supply for manufacturing and the key apprenticeship, CTE programs, and higher education programs providing needed skills in the state. He would then report on market demand and the skills needed and how are they changing as they relate to Industry 4.0 and the advancement of manufacturing, and what are the gaps. He can include what other surrounding states are doing. He can then combine this research.

Ms. Roth stated we should start with demand first, both current and in the future. For supply, topics include what skills new workers need, upskilling existing employees, career pathways, and workforce gaps. She suggested speaking with EARN grant applicants about their workforce constraints including transportation, childcare, and housing. Delegate Qi stated this is larger than in just manufacturing and the state has started to address this. She then went on to address how to train immigrants who are waiting for their visas. Senator Rosapepe agreed with Ms. Roth to start with demand first and then align with supply and there should be more emphasis on career pathways in terms of supply. Ms. Roth brought up marketing and the image of manufacturing. Senator Rosapepe suggested giving companies access on work permit data for employers to recruit from. Delegate Qi suggested a database on this sector for employers to match with potential employees. Mr. Clinch went on to clarify reporting on the next meeting which would include high level reporting on regulatory and tax issues, and then on manufacturing labor market demand. Mr. Sanchez asked if the workgroup should concentrate more on the role of technology in helping with the labor constraint. Mr. Galiazzo agreed to look at the skills need to support Industry 4.0 and suggested to breakout incumbent worker training funding. Ms. Roth agreed with Mr. Sanchez and need to look at skill demand for Industry 4.0 and the training needed in 5 years.

Delegate Qi proposed the workgroup does not meet in August to take a break and schedule meetings as needed during this time.